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UNCLAS SECTION 01 OF 02 ATHENS 001440

SIPDIS

FOR H -- PLEASE PASS TO CODEL SHELBY FROM AMBASSADOR
CHARLIES RIES

E.O. 12958: N/A

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SUBJECT: SCENESETTER FOR CODEL SHELBY'S MAY 29-JUNE 1 VISIT
TO ATHENS

REF: STATE 92588

1. (SBU) Embassy Athens warmly welcomes your May 29- June 1 visit. We have arranged a meeting with Foreign Minister Molyviatis to discuss general political and economic topics, as well as a meeting and lunch with Central Bank Governor Garganas to discuss banking policy. Finally, you will have the chance to discuss terrorist financing and financial concerns with Deputy Minister of Economy and Finance Doukas. I look forward to meeting with you and the Embassy will do all it can to make your visit a productive one.

2. (SBU) Your visit to Greece comes in the immediate aftermath of Prime Minister Karamanlis's May 20 meeting with the President in Washington. The two leaders affirmed their strategic partnership, and discussed a variety of issues, including democratization in the broader Middle East region, Iraq and Afghanistan, the Balkans and relations among Greece, Turkey and Cyprus. Greece wants to be helpful, particularly in the Balkans and Middle East. Greece is also helping to fund the NATO training mission in Iraq, and has a contingent of soldiers in Afghanistan.

3. (SBU) The GoG has been very helpful on the issue of terror financing, cooperating fully with us on all levels. The Ministry of Economy and Finance has the lead on the issue, but the Bank of Greece also plays a large role in notifying commercial banks and credit institutions of U.S. terrorist designations. However, it is worth noting that Greece's ability to detect terrorist money, or money laundering in general, is limited. In particular, some smaller banks outside of Athens are still not computerized, making the tracking of money flows difficult.

4. (U) Economically, Greece has been suffering for years from chronic trade and current account deficits, compounded by declining competitiveness. Karamanlis is under European Commission pressure to reduce the government deficit at the same time that GDP growth is projected to fall, due largely to the end of construction projects related to last year's Olympic Games. He also must privatize a variety of state-owned sectors, including transportation and energy, while minimizing structural dislocation that could cause social unrest (or at least be politically damaging) in a country accustomed to lifetime employment and generous retirement packages.

5. (SBU) None of these reforms will be easy, given that inflationary pressure from rising health care and pension costs are expected to exceed those of any other EU member, a strong euro continues to weaken already lackluster Greek exports, and the growth in tax revenue continues to fall behind the rate of inflation in a country infamous for its tax evasion problems. GDP growth in 2004 was 4.2 percent, buoyed by both construction and consumption during the Olympic period. Unemployment averaged 10.5 percent in 2004, although it hit a first quarter peak of 11.3 percent. Consumer price inflation rose by 3 percent, down from 3.4 percent in 2003, but still well above the 2.1 percent European average. 2005-06 forecasts estimate GDP growth from 2.7 to 3.2 percent, and a government deficit ranging from 3.2 to 4 percent of GDP.

6. (SBU) The Bank of Greece, Greece's central bank, is seen as a fair broker and often publishes forecasts at odds with the more optimistic projections from the GoG. In particular Governor Garganas has been active in warning the government it must control its aggregate public debt, over 112 percent of GDP, and exercise better fiscal discipline. He has been a voice of caution on pension funds in the country, many of which are either currently unfunded (such as those for the banking industry) or are facing unfunded liability in the near future. Garganas has also urged the GoG to increase the pace of privatization in the country.

7. (U) Karamanlis, in power since March 2004, has faced many challenges since his election. Southeast Europe is a tough neighborhood, with the countries of the ex-Yugoslavia struggling to move beyond the wars that wracked the Balkans in the 90's. As the only country in the region that is a member of both NATO and the EU, Greece has a special role to play in bringing security and prosperity to the Balkans.

Greece is also working to revive negotiations on the future of Cyprus, which has been an open question since the referendum on the UN Secretary General's plan last April failed to gain Greek-Cypriot approval. The Greek Government has pursued a policy of rapprochement with Turkey, and is a staunch supporter of Turkey's accession to the European Union. Unresolved air/sea space demarcations in the Aegean exacerbate tensions between the two countries, however.

18. (SBU) The good news is that our relations with the Greek government are good and getting better, despite policy differences (Iraq, Kyoto, the ICC). Our primary objective now is to find ways to encourage Greece to become a more active partner on our regional and global agendas. This is particularly true given Greece's current two-year (2005-07) seat on the UN Security Council and willingness to take an active part in resolving long-standing problems in the Balkans, including the status of Kosovo and bringing war criminals to justice. An issue that may arise during your visit, however, is the ongoing name dispute between Greece and Macedonia. When the U.S. recognized the Republic of Macedonia by its constitutional name last November, there was an outcry here in Greece. While the U.S. took the decision to help prevent ethnic unrest in Macedonia, the Greeks saw our decision as undermining the UN process to resolve the name issue. Our action has actually reenergized the UN process. We support the UN talks and will use whatever name the two sides agree on.

19. (U) Again, I welcome your visit to Greece, and look forward to productive and informative meetings.
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